GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1611
ANSWERED ON:10.12.2004
FOREIGN BANKS
Zahedi Shri Mahboob

Will the Minister of FINANCE be pleased to state:

(a) whether the Government proposes to extend facility to foreign banks similar to the public sector banks;

(b) if so, the details thereof;

(c) whether the Government has a plan to allow foreign banks to obtain 10% share of the private banks in India each year and also to make them control the administrative power for management within 3-4 years;

(d) if so, the details thereof;

(e) whether the Government has a further plan to uplift the private, public sector and foreign ` banks in equal tier and subsequently transform 3-4 public sector banks to a Group to compete in the Indian economy; and

(f) if so, whether the Government has expressed its keen desire for amalgamation/merging of all public sector banks?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a)& (b): In pursuance of a Budget announcement made on February 28, 2003 the Government has issued a notification on 5th March, 2004 raising the Foreign Direct Investment (FDI) limit in private Banks from 49% to 74% , including the investment of Foreign Institutional Investors (FII). The aforesaid Press Note also clarifies that presently there is a limit of 10 percent on voting rights in respect of banking companies and any change in the ceiling can be brought about only after final policy decisions and appropriate Parliamentary approvals. In order to regulate the flow of FDI and set out the roadmap for this purpose. Reserve Bank of India has placed in the public domain draft guidelines/ a discussion paper on 2nd July, 2004.

(c) & (d): There is no such proposal at present.

(e)& (f) As part of new initiatives, the Public Sector Banks are seriously evaluating consolidation as one of the strategies to increase their competitiveness at global level and for better viability. Consolidation would allow economies of scale in terms of footprint, manpower and other resources. Having Indian Banks of a larger size would enable them to face competition arising from internationalization of the economy. Larger size also entails better management of risk. Small and weak banks pose systemic risks with their low capital adequacy ratio and high NPAs. Consolidation is a timely response to augment efficiency which would lead to income generation and add to GDP of the country.